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10 May 1974

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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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Mitterrand



Giscard d'Estaing

France

GAULLISTS OUT OF THE RACE

Early polls on the second round of the French presidential election between Francois Mitterrand and Valery Giscard d'Estaing on May 19 indicate that the outcome may be very close. The French electorate clearly wants economic and social changes, and both candidates are promising reform. The voters must decide if they prefer Giscard's moderate proposals or if they will back Mitterrand's more radical program despite his links with the Communists.

In the first round Mitterrand took 43 percent and Giscard 33 percent of the votes. Despite a record turnout, Mitterrand failed to improve on the proportion of first round votes usually won by the left. Inasmuch as the left was almost completely united in the first round, it is thought that Mitterrand will not gain many votes in the second round. Giscard must work hard, however, to prevent abstentions on the right that would give the victory to Mitterrand.

The resounding defeat of Jacques Chaban-Delmas, who won only 15 percent of the votes, probably spells the end of Gaullism as the prime political force in France. Most Gaullists agree that their party is in trouble, but they disagree on how the damage might be repaired. The realists know they must now back Giscard if they want to go on participating in the government, and the party has officially announced its backing of Giscard in the second round. The strong feelings between those who differed over their support for Chaban or Giscard in the first round will add to earlier grudges, however, and divide the movement for years to come.

The Gaullists are now split into three factions. The first, led by Interior Minister Chirac, never did join Chaban's cause and embittered other Gaullists by aiding Giscard. This group claims the allegiance of about 70 of the 183 Gaullist deputies. It will probably soon merge with the second group, led by Housing and Development Minister Guichard. This group claims 80 deputies. Guichard stayed out of the first round infighting, but now believes the Gaullist movement will totally disintegrate if it does not come to terms with Giscard. Guichard hopes to become the spokesman for all Gaullists in the between-the-rounds negotiations with Giscard, and has been widely touted as a possible prime minister under Giscard.

The third and smallest faction is led by the Gaullist old guard which has resented Giscard for years. A member of this faction, the party secretary-general, has in fact now endorsed Giscard, but this decision probably reflects fear of a leftist victory rather than a move to repair party unity.

Regardless of which candidate wins the race, the legislative electoral law, which favors the Gaullists, is likely to be amended. Both Giscard and Mitterrand favor representation in the National Assembly based on the population of election districts. This plan would reduce the number of rural districts where Gaullists are strong and increase urban districts from which the other major parties draw their strength. The Socialists and Communists—as well as Giscard's Independent Republicans—would expect to gain many seats at Gaullist expense under a proportional system.

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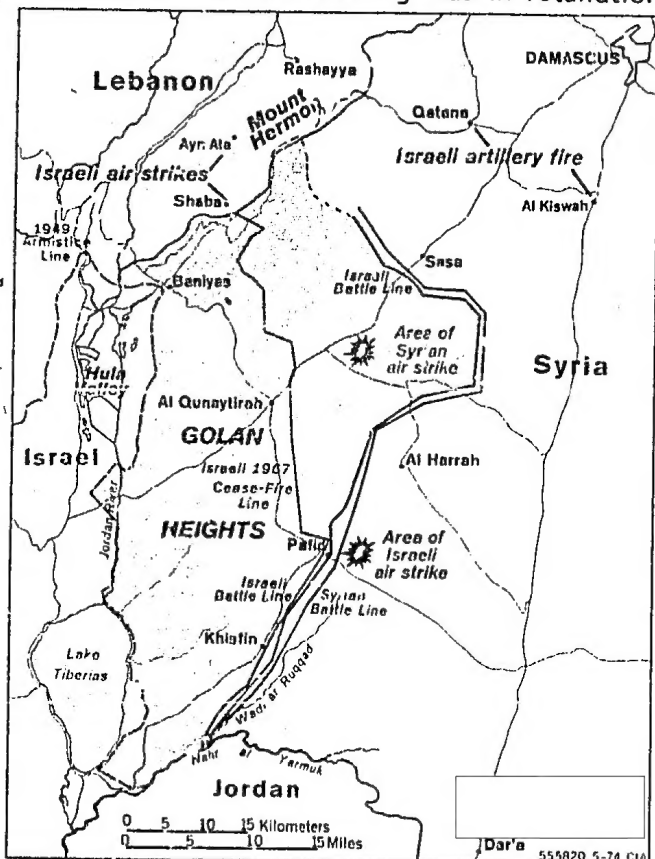
Syria-Israel

Fighting on the Syrian front this week was down substantially from that of previous weeks as both sides took steps to limit military activity, apparently because of Secretary Kissinger's Middle East trip to mediate an Israeli-Syrian disengagement. The area around Mount Hermon continued to be the focal point of the action.

25X1 The heaviest activity occurred on May 2 when Israeli aircraft attacked Syrian and fedayeen targets in the Ayn Ata-Shaba area of southeastern Lebanon.



Israeli long-range artillery shelled Syrian military camps at Qatana and Al Kiswah on May 2. Both camps are well behind Syrian lines. Tel Aviv claimed that the shelling was in retaliation



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for Syrian fire that killed four Israeli soldiers and wounded two others.

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Both Israeli and Syrian aircraft carried out combat missions over the front on May 6. The Israelis struck Syrian positions south of the salient into Syria, while the Syrians attacked Israeli targets behind the battle line.

By mid-week, fighting had again scaled down, with only light tank and artillery fire being exchanged along the front.

MORE SOVIET EQUIPMENT

Syria continues to receive large amounts of military equipment from the Soviet Union. During the past seven weeks, Moscow has provided Damascus with a wide assortment of air and ground forces equipment.

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PORTUGAL

FILLING THE GAP

A flowering of new political parties and groupings has created a fluid political situation in Lisbon and has added to the junta's difficulties in deciding who will participate in the provisional government it has promised to form by mid-May.

Thousands of returning political exiles and recently freed political prisoners have joined with other citizens in contributing their energy and political talent to a number of newly created political groupings. A majority of these new parties have a leftist orientation. Their organizers have emerged from hiding after years of clandestine operations.

Socialist Party leader Mario Soares, who has been very active since his return from exile, traveled to European capitals last week to meet with various heads of state and to drum up financial and technical support from European Socialists. He apparently met with some degree of success, because Georges Dubunne, the vice president of the International Confederation of Free Trade Unions, has said that he and other European labor leaders will visit Portugal soon to demonstrate their support for Soares. British Labor Party leaders also have promised aid to Soares and his party.

Soares is in favor of including Communists in the provisional government on grounds that it will be better to have the Communists share cabinet responsibility than leave them on the outside to criticize. He emphasized that the Communists would be denied sensitive portfolios such as the foreign, defense, and interior ministry posts. Soares implied that he would become prime minister.

Meanwhile, the climate of political tolerance in Lisbon has sparked a rash of political demonstrations and seizures of public institutions. One large group demonstrated in front of junta headquarters for better pay and shorter hours. Last week, well-organized employee groups took over operations of the telephone company, the government airline, and some local government offices.



Soares

The junta reacted to this activity on May 5 by issuing a toughly worded statement warning that such acts will be considered "insubordination and a crime against the Armed Forces Movement." The Portuguese Communist Party issued a similar warning, but it has become apparent that the party is unable to exercise effective control over the extreme left.

Demonstrations and seizures have diminished this week, but concern is growing within the business community that the country is headed for a period of economic disorder. To reduce the flow of wealth abroad, the junta on May 8 imposed a series of belt-tightening economic measures, reinforced by the threat of heavy jail terms for violations.

STRATEGY IN AFRICA

During the past week the junta leaders began to amplify their policy toward Portuguese Africa. The immediate objectives are to put the insurgents on the political defensive and to reassure the sizable white populations of the major territories that Lisbon will not abandon them.

In press conferences in Angola and Lisbon, General Costa Gomes, the number two man in the junta and chief of staff of the armed forces, urged the insurgents to stop fighting and participate in a free political "dialogue" along with other political forces in the territories and the metropole. His offer was, in effect, a challenge to the rebels to prove in the open their long-held claims of wide popular support. It also was apparently intended to let the insurgents know they cannot expect Lisbon to defer to them on the basis of their alleged military strength or control of territory.

Although insurgent leaders immediately rejected Costa Gomes' offer, they clearly have been put off balance by the sudden switch in Lisbon to a regime advocating major changes in African policy. They are under strong pressure to compromise with the junta from independent African leaders who have supported them over the years and who now sense a possible way out of a black-white military confrontation. At the same time, however, a number of insurgent organizations cannot afford to have the actual amount

of territorial control and public support they command, which is much less than claimed, brought out into the open.

Rather than risk such exposure they may try to force Lisbon to the negotiating table, particularly in Portuguese Guinea and Mozambique, where the rebels have strong military positions. In Angola, however, rebel groups are internally divided and in sharp competition with each other. The level of insurgency has been low for several years, and the rebels may be forced by their own limitations, and by African pressure, to enter the political arena as their only hope.

Costa Gomes' press conference in Angola was in part an attempt to "show the flag" in Africa and calm fears of local whites in both Angola and Mozambique that Lisbon might abandon them. The liberal policies of the junta have sharpened misgivings long held by whites over the strength of Lisbon's commitment to stay in Africa.

White apprehension has been particularly noticeable recently in Mozambique. There, a single unified insurgent movement has been making slow but steady military gains, which have now brought them into areas of heavy white settler concentration, leading the whites in recent months to demonstrate for stronger military protection.

Costa Gomes' visit to Angola was marked by reassuring public speeches and was followed up by warnings from local officials that civil disorders would not be tolerated. In the present period of political euphoria, the junta is anxious to avoid clashes among social and political organizations that are certain to emerge in response to the junta's desire for political liberalization.

Just prior to Costa Gomes' arrival in Angola, the junta dispatched a special representative to Mozambique to serve as an adviser to the local administration. Costa Gomes is planning to visit Mozambique shortly. Lisbon announced on May 8 that General Spínola will visit Angola in the near future.

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EC PONDERES ITALIAN IMPORT CURBS

In failing to agree this week on a common response to Italy's import restrictions, the EC Council gave further evidence of the community's present ineffectiveness. Using its right under the community treaties, however, the EC Commission has sanctioned the Italian measure, subject to certain limitations.

Commission President Ortolí said after the meeting that the commission's acceptance of the Italian action on "a strictly temporary basis" brings it within the community framework. The commission's authorization, however, was described by some EC sources as a device to camouflage the inability of the ministers either to approve Italy's independent action or agree on practical alternatives.

France and Germany, the two EC countries hardest hit by the move, blocked a council stamp of approval, primarily because of the impact on their own agricultural producers.

The preparation by the commission of special recommendations to harmonize Rome's policy with the demands of the common agricultural policy will be of primary importance. German and French objections to the controls placed on beef exports will force the commission to report back to the council if an alternative cannot be found.

The commission will also now suggest further moves Rome might take to curtail Italy's staggering balance of payments problem. The commissioners feel Italy should limit the expansion of its money supply, increase taxes, stimulate savings and control public expenditures. The commission will work with Rome to develop an EC approach to the Italian problem and by June 30 will review the entire series of measures and products affected.

The council also took no action on a proposal to turn Italy's short-term EC credit line—which expires in September—into a medium-term borrowing facility. The move had been opposed

by the EC monetary committee, and in any case, Italy expressed little interest at this time. The matter of credit extension, however, is likely to remain under discussion as Italy will be hard pressed to repay its \$1.8 billion debt to the EC on schedule.

The new Italian measure requires the deposit of fifty percent of the value of imports in a non-interest bearing account for six months. Forty percent of Italy's annual imports are affected. The two largest categories—meat and motor vehicles—are also the EC's primary exports to Italy. US exports to Italy will be relatively less affected than those of the EC.

The deposit scheme aims at curbing Italy's economic problems on three fronts: cutting the trade deficit; fighting inflation by reducing the money supply; and inducing capital inflows from foreign suppliers intent on retaining their share of the Italian market.

While the move will probably have a beneficial effect on all three counts, it is unlikely to prove decisive in solving Italy's dire economic problems. It is designed primarily to help the economy muddle through to the end of the year.

Rome nevertheless had to adopt some form of import restrictions to curb Italy's rapidly deteriorating balance of payments position. Despite heavy borrowing, Italian foreign currency reserves were dwindling at a rate unacceptable to both Rome and its creditors. Alternatives to the scheme were rejected for a variety of reasons. A sharp lira devaluation would have intensified the record-breaking rate of inflation while offering only a delayed improvement in the trade balance. Differences within the ruling coalition over the wisdom of using deflationary monetary and fiscal policy made this course nearly impossible, while more extreme import restrictions would have violated the EC treaties.

The Nine thus had little choice but to accept Rome's import restriction plan. While the short notice given its partners may have violated the

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spirit of the Rome Treaty, the emergency measure was not illegal. The indecisiveness of the council debate again demonstrates the divergent interests of the member states and their inability to act in concert. The commission action nevertheless does prevent Italy from being isolated from the community at a time when the EC is already reeling from a succession of blows, the most recent being the Brandt resignation only the night before the ministers met.

By bringing the Italian controls under the EC treaties, the community is not only committed to search for an EC remedy to the Italian problem as required by the treaties, but it can also defend Italy in the several international bodies investigating the propriety of the restrictions. By emphasizing the severity of Rome's problem, and making a point of its special nature, the commission may hope to discourage the use of restrictive trade measures by other states also faced with continuing inflation and balance of payments problems.

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BONN'S RECORD TRADE SURPLUS

Bonn continues to rack up record trade surpluses, despite an increasing oil bill and the faltering economies of its major trading partners. The first-quarter surplus hit a record \$4.9 billion.

The large surplus last year resulted in part from German ability to make timely deliveries. Unlike other countries, where consumer demand was high throughout the year, Germany experienced a slowdown, freeing industrial capacity for export production. The ability of German producers to hold export prices down also contributed to rapid sales growth. Imports, on the other hand, grew relatively slowly because of stagnating domestic demand.

Extraordinary circumstances in the early part of 1974 accentuated these basic trends. Industrial strikes in Italy and a three-day workweek in the United Kingdom diverted orders to West German industry. Release of chemicals and other materials, which had been held off the market by

German traders during the Arab oil cutback in anticipation of price rises, also boosted sales.

First-quarter exports rose 44 percent compared with the same period last year; imports increased by 29 percent due entirely to higher prices. Import volume actually declined, while export volume rose by about 15 percent. West Germany's trade performance has been a major factor in the recent strengthening of the mark. The mark has appreciated 15 percent against the dollar since January.

As the special factors fueling the huge first-quarter surplus fade, the trade balance probably will narrow. Returns for March showed a decline in the surplus from the level in February. For this year as a whole, West Germany will probably have a surplus of about \$11 billion—\$2 billion off from last year's record total. Much higher prices particularly for oil, will push up import costs. Slow domestic growth, however, will keep import demand depressed. Export growth will probably be down appreciably; automobile sales, particularly to other European countries, have already fallen off sharply. The growth in orders for other export goods is also declining.

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WEST GERMAN FOREIGN TRADE

Quarterly 1973/1974

(\$ Millions)

	Exports (f.o.b.)	Imports (c.i.f.)	Trade Balance
1973 I	13,791	11,846	+1,945
II	15,942	13,401	+2,541
III	18,202	14,041	+4,161
IV	19,471	15,463	+4,008
1974 I	20,183	15,281	+4,902

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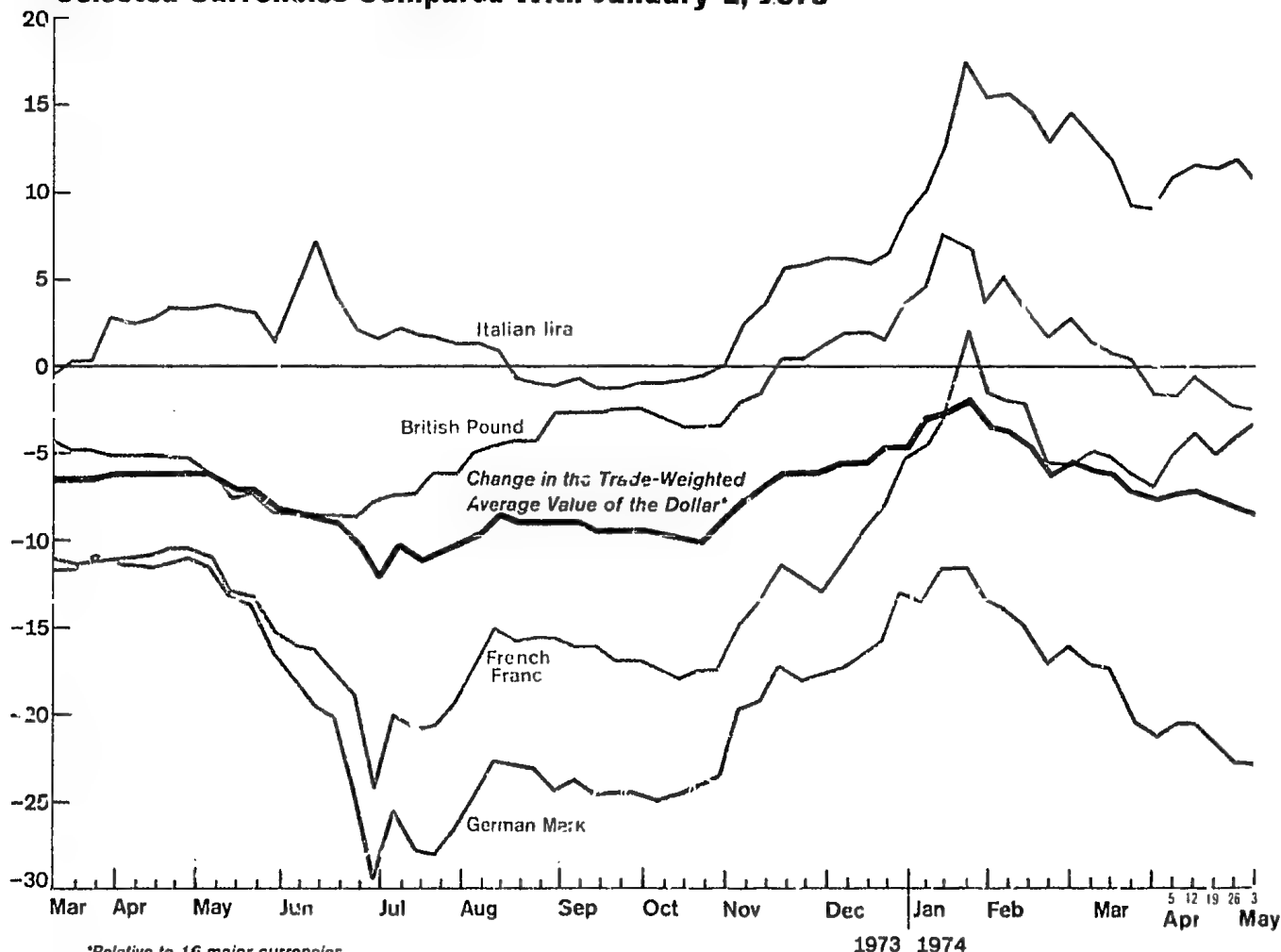
INTERNATIONAL MONEY

Over the last two weeks, the dollar has weakened substantially against most European currencies, while strengthening slightly relative to the yen. The mark, the guilder, and the Belgian franc have appreciated more than 2.5 percent against the dollar, while the pound and the lira also strengthened substantially. Because of the mark's continuing strength, the Bundesbank had to purchase Belgian francs and Danish crowns last week to keep the joint float currencies within the prescribed 2.25 percent band.

Following last week's announcement of import curbs, Rome reportedly was able to end its massive support of the lira. Market intervention has cost Italy about \$4 billion since the beginning of the year. Whether Rome can stay out of the market, without the lira declining sharply, depends largely on the success of the import measures.

West Germany's continued strong export performance in the first quarter this year and its

Percent Change in the Value of the US Dollar Relative to Selected Currencies Compared With January 2, 1973



*Relative to 16 major currencies.

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success in bringing inflation below the US rate are major factors in the rise of the joint float currencies. Last Friday Bonn announced a trade surplus of \$1.8 billion for March, which brought the first quarter surplus to a record \$4.9 billion. These trade figures again sparked rumors that the mark would have to be revalued.

Uncertainties surrounding the French presidential election have caused the franc to depreciate sharply against other European currencies during the last two weeks. As in the past, fear of a leftist government has caused the flight of capital.

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MBFR: BEGINNING AGAIN

The East-West force reduction talks resume in Vienna this week with little to indicate that the new round will show more progress than the previous one. Although the chief Soviet representative, Ambassador Khlestov, recently said that the negotiations were "condemned to succeed," neither side seems prepared to advance much beyond the proposals presented last fall.

The West wants a two-phase reduction leading to a "common ceiling" on ground forces. Because the Warsaw Pact has considerably more ground forces in Central Europe than NATO does, the pact would be required to make greater reductions to reach the common ceiling. Under the allied plan, US and Soviet forces would reduce in the first phase and other participants in the second. The Soviet proposals foresee reductions that would be less asymmetrical than those proposed by NATO, with the forces of all participants reduced from the beginning, including air and ground forces as well as nuclear weapons.

This negotiating round is likely to continue the pattern of plenary meetings for the formal presentation of views and informal sessions for more candid discussion. The Soviets will probably

continue to push the idea of initial symbolic reductions—primarily designed to include West European forces from the start. To entice the allies, the Soviets have said these symbolic reductions could be very small and might only cover ground forces. But the allies remain opposed to even symbolic initial reductions of their forces.

In pressing their basic proposal and their symbolic reductions idea, the Soviets will continue to emphasize the importance of including West German forces from the very beginning. Ambassador Khlestov recently remarked to Ambassador Stoessel in Moscow that, for the Soviets, this is not just a military but a psychological necessity.

There may also be new attempts by the Soviets to deal bilaterally with the US, a move that would be staunchly resisted by the Western allies, who recently have been more cautious on a number of specific issues. While this caution is likely to increase as the negotiations become more complex, British skepticism may be somewhat relaxed. A Foreign Office official said recently that Labor tends to view the negotiations more idealistically and positively than the Conservatives did.

The caution of the West Europeans about the force reduction negotiations may be exacerbated by the uneasiness many of them feel about the course of the European security conference in Geneva. Some suspect that the West has already given away too much to get agreement on the "inviolability of frontiers," and they are concerned about how the subject of most importance to them—the freer movement of people and ideas between East and West—will be treated. Although the East has reportedly decided to be more flexible, the conference is currently stalled on the freer movement issue. The Eastern side may intend to make last-minute concessions, since it still desires a summit-level conclusion to the security conference this summer.

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Czechoslovakia PRESIDENTIAL SUCCESSION

Czechoslovakia's 78-year old President, General Ludvik Svoboda, is gravely ill and his death could occur at any moment. Finding a replacement for the widely respected Svoboda is a ticklish problem for the regime because the selection risks altering the leadership's delicate balance between moderates and hardliners.

The issue of Svoboda's successor has plagued the regime for some time.

The regime has recently begun issuing daily statements that Svoboda's respiratory and circulatory malfunctions have further weakened his health.

In selecting Svoboda's successor, the party presidium (politburo) must at the same time maintain the delicate political balance, meet Moscow's desires, and satisfy the constitutional



Svoboda

requirement that parliament elect a new president no later than 14 days after the office becomes vacant.

The issue of nationality further complicates the problem. The new President should be a Czech, because Gustav Husak, the current party chief, is a Slovak. The two most likely Czech candidates are Chairman of the Federal Assembly Alois Indra and Premier Lubomir Strougal. Indra is a Presidium member, but neither would probably want to take up the largely ceremonial office of President. If both refuse, the choice might fall to a less prominent party figure such as Federal Deputy Premier Josef Korcak, who is also Premier of the Czech lands.

Another, though less likely, possibility would involve inducing the 61-year old Husak to relinquish his job as party chief in order to assume the presidency. There has been recent speculation that some party leaders believe Husak too moderate; they would like to kick him upstairs in order to install a hardliner as the party's secretary general. Conceivably, Moscow might approve such a step as a means of further tightening discipline in the face of the presumed disruptive effects of detente on Eastern Europe.

An even less likely option would be for Husak to assume the presidency while retaining the top party post. This arrangement existed during the 1960s under Antonin Novotny, but his downfall discredited the practice.

The most remote possibility is that the regime might abolish the presidency entirely. This would make Indra, as chairman of the Federal Assembly, titular chief of state, much as Nikolay Podgorny fills that ceremonial post by virtue of being Chairman of the Presidium of the Supreme Soviet. Such a step would, however, offend most Czechoslovaks to whom the post of President of the Republic retains some of the prestige given it after 1918 by its first incumbent, Thomas Masaryk.

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ITALY: DIVORCE DIVIDES

Italian voters go to the polls on May 12 to decide on repeal of a 1970 law that legalized divorce. The outcome of the referendum, however, may determine more than the fate of a specific law. Most politicians are playing for higher stakes, and the battle over divorce could further divide Italy's ruling parties and affect the Communist Party's drive for a role in the national government.

The referendum has been postponed twice on technicalities since 1971 when anti-divorce activists collected enough signatures to schedule a national plebiscite on the divorce law. Attempts to postpone it again failed early this year, and the campaign has been under way since early April.

At the outset, most participants expressed their preference for a "civil and responsible" campaign. The contest in its last week, however, has transcended the divorce issue, triggered violence, and acquired the air of a general political campaign. After following a "hands off" policy toward the referendum, the Roman Catholic Church has weighed in with a ringing anti-divorce statement. Both sides have apparently decided that the outcome is important enough to justify a no-holds-barred campaign.

The campaign has split the Christian Democrats—Italy's largest party—from their three coalition partners. The Christian Democrats are campaigning hard against the law while the Socialists, Social Democrats, and Republicans want it retained.

The referendum has also fostered embarrassing ad hoc alliances between the coalition members and opposition parties on the right and left. The neo-fascist Italian Social Movement, for example, is the only party that supports the Christian Democrats' anti-divorce stand. The other coalition parties are uncomfortably lined up with the Communists in favoring divorce.

The divorce issue has thus been nearly submerged as the themes of anti-fascism and anti-communism have taken the spotlight. The polar-

ization of the campaign has been encouraged by recent bomb attacks linked to right-wing extremists and the kidnaping of a prominent public official by extraparliamentary leftists.

A personal struggle between the leaders of Italy's two largest parties—Christian Democrat Amintore Fanfani and Communist Enrico Berlinguer—has added an additional dimension to the campaign. Berlinguer tried to get Fanfani to go along with a plan to cancel the referendum as a means of avoiding an open fight with the Christian Democrats. Berlinguer had been arguing since October that the time was ripe for better relations between the two parties, a necessary prerequisite for Communist admission to the government. Fanfani's refusal to compromise, however, gave substance to the concerns of more militant Communists who think Berlinguer has gone too far in his efforts to "compromise."

The political impact of the referendum will depend largely on the margin of victory for the winning side. Most observers expect the outcome to be close. Both sides would be hard-pressed to make much of a narrow win. A large pro-divorce verdict, however, would encourage Communist chief Berlinguer to keep up his pressure for an accord with the ruling parties. A resounding defeat for advocates of divorce would expose Berlinguer to criticism from Communist hardliners. It would also put the Christian Democrats—Fanfani in particular—in an even stronger position.

Regardless of which side wins, the Christian Democrats will retain the initiative in the political "stocktaking" following the referendum. If tensions produced by the referendum cause the government to fall, the Christian Democrats will probably try to form still another center-left coalition with the Socialists. The record of center-left governments over the last decade is unimpressive, however, and a win for the Communist side in the referendum would inevitably increase pressure for a broader coalition—including the Communists—to deal with Italy's pressing social and economic problems.

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A TROUBLESOME MAY FOR THE KREMLIN

The Soviet leaders face a busy public schedule this month, at a time when difficult and perhaps controversial policy questions in several areas have come to the fore.

Late this month the 23 top leaders will begin a round of electoral speeches preceding the Supreme Soviet elections on June 16. Selection of the right formulations for these speeches will be a serious matter in light of the impending US-Soviet summit, recent signs of fluidity in cultural and social policy, and discussion of new measures in economic management. The resignation this week of West German Chancellor Brandt adds yet another element of uncertainty for policy spokesmen. The "general line" on some of these issues has not been set, and a Central Committee plenum before the election oratory begins would thus seem appropriate. Since the issues involve many unknowns and potentially divisive questions, however, the leadership may prefer to delay any formal stocktaking.

The leaders' schedule for the last half of May is already crowded: the Libyan prime minister's visit (tentatively "mid-May"), party secretary Ponomarev's visit to the US (tentatively May 19-29), the Yugoslav party congress which a senior Soviet leader is expected to attend (May 27-30), and a visit to Moscow by the Austrian chancellor ("end of May"). If a plenum is to be squeezed in, it may have to be held soon.

Ponomarev, who is also a candidate member of the Politburo, will be heading a parliamentary group scheduled to meet with members of Congress. His delegation will include such officials as the chairman of the state committee for publishing, the director general of the news agency Tass, the chief editors of *Izvestia* and *Literaturnaya Gazeta*, and a *Pravda* political observer. These men are responsible for how the world is interpreted to the Soviet people, and undoubtedly will be seeking a first hand look at the US political scene.

An elaborate celebration of the 250th anniversary of the Soviet Academy of Sciences has been postponed until later in the year. Hundreds of invitations had been sent to prominent foreign scientists for the festivities from May 14 to 20 in Moscow and Leningrad. The Academy notified foreign guests that the observances would conflict with preparations for the Supreme Soviet elections.

It seems more likely, however, that the regime wanted to avoid embarrassing incidents in a period of political stocktaking. In addition to the problems raised by contacts between Western scientists and their non-conformist Soviet colleagues, Jewish dissidents reportedly were planning to use the occasion to enlist the support of some of the Western scientists for their own protest conference in July. These activities would have been particularly annoying to Moscow if they coincided with a Central Committee plenum or with Ponomarev's visit to the US. The ill health of Academy President Mstislav Keldysh may also have been a contributing factor in the decision to delay the celebration.

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USSR-INDIA: ANNOYANCE ANEW

The warm atmosphere generated by Brezhnev's visit to India last November has now dissipated, to no one's great surprise, and the two countries are again sniping at each other.

Moscow is unhappy about the improvement in US-Indian relations, Mrs. Gandhi's moves to the right in domestic affairs, and the Indian Defense Ministry's desire to diminish India's dependence on the USSR for arms. When the press in mid-March reported—erroneously—that India had concluded a naval aid agreement with the French, the Soviets reacted quickly, inviting the Indians to send a military delegation to Moscow. New Delhi does not expect much to be accomplished, however, because of Soviet reluctance to provide the kinds of assistance India needs to build up its armament industry.

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For their part, the Indians are displeased because Moscow did not respond to their request for help in restraining great power naval competition in the Indian Ocean and because the USSR has persisted in pressing for special military privileges in India.

New Delhi is also upset because only one new economic agreement advantageous to India has been signed with the USSR since Brezhnev's visit—a contract for one million tons of kerosene and 100,000 tons of diesel fuel.

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The Soviets do not wish to be made a scapegoat for India's current economic difficulties. Recently, a Soviet official in New Delhi took the unprecedented step of calling a press conference to criticize India's performance in meeting its commitments for the Bhilai and Bokaro steel plants, two of the USSR's largest aid ventures in India. Neither is proceeding as rapidly as planned. Part of the fault rests with New Delhi, and the Soviets want to make sure they are not blamed for the delays.

Such bilateral problems are not unusual, particularly in the economic sphere. They tend to surface when New Delhi's relations with its neighbors on the subcontinent are relatively good and the Indians have no pressing need to curry favor with the USSR. The present frictions between the two could become more serious, however, if India continues to move closer to the US or begins to try seriously to improve relations with the Chinese.

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USSR-Egypt MILITARY DELIVERIES CURTAILED

The Soviets appear to be tightening the screws on President Sadat by halting all arms shipments to Egypt.

The Kremlin apparently decided to hold back military shipments in late March or early April—perhaps in response to Sadat's intense anti-Soviet polemics, which began about that time.

The interruption of deliveries is the farthest the Soviets have ever gone in using their position as a weapons supplier to apply pressure on the Egyptians.

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Nevertheless, it seems likely that even if some limited shipments are resumed, the Soviets will continue to press for policies more favorable to Moscow by withholding the quantities and types of military aid that the Egyptians want. The USSR may hope that its military aid policies will trigger significant misgivings within the Egyptian military concerning the consequences of Sadat's present policies.

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EGYPT: POSTWAR ECONOMIC BOOM

Most of the serious economic problems that have plagued Egypt for more than a decade now seem to have disappeared. Since the October war, Cairo has received offers of more than \$3 billion in funds from both public and private sources, creating an urban economic boom unparalleled in recent Egyptian history. Thus far the boom appears to be self sustaining, but serious problems could lie ahead if Egypt cannot quickly renovate its outdated transportation, communications, and support facilities as well as its economic institutions.

War-time aid from other Arab countries triggered the boom. Cash donations of well over \$500 million during the third quarter of 1973 enabled Egypt to repay its most urgent debts. Subsequently, an improved credit rating, the prospect of peace with Israel, and the possibility of even more Arab money have focused the attention of the international financial community on Cairo. US banks have been in the forefront of the action. Chase Manhattan has offered an \$80-million loan and has proposed establishing branch banks in Egypt. Citibank also is surveying the Egyptian financial scene, as are other Western banking institutions.

Venture capital, available for direct investment, also is pouring into Egypt. Some \$2.5 billion in international funds is now available, and the total is growing daily. Other Arabs, attracted by Egypt's relative economic sophistication and by President Sadat's liberalization measures, were the first to seek direct investment opportunities in Egypt. In rapid succession, groups from affluent Persian Gulf states agreed to finance half of the \$400-million SUMED pipeline, all of a \$400-million refinery complex at the pipeline's northern terminus, and a number of large-scale tourist ventures. Japanese firms have proposed some \$800 million in joint Egyptian-Japanese projects.

Cairo has even been relatively fortunate in the foreign trade sphere. Because Egypt is self-

sufficient in crude oil production, it has been insulated from rising oil prices. Indeed, Cairo appears to have benefited, indirectly, from the energy crisis. Lagging world output of petrochemicals and the consequent shortage of polyethylenes has caused an explosion in world demand for extra long staple cotton, Egypt's principal export. Because of soaring prices, the Egyptians have diverted cotton shipments from Communist countries to the West, enabling them to more than offset the rising cost of wheat and other imported foodstuffs on which their urban population depends.

Internal problems could multiply rapidly, however, if the investment boom continues at the present rate. During the prewar foreign exchange shortage, supporting facilities were neglected in favor of export industries, import substitution industries, and other quick yielding enterprises. Unless Cairo acts immediately to upgrade transportation, communications, power production, and other supporting facilities, expansion in the industrial and service sector will be stymied by internal bottlenecks.

Despite the flood of foreign investment capital now available, Egypt will continue to seek export credits and other financial support from other governments. Part of this financing, along with matching technical assistance, will be needed to upgrade the country's supporting facilities. With considerable justification, Cairo fears that growth financed largely with foreign venture capital will result in a reversion to prerevolutionary days when Egypt was dominated economically by outsiders. Sadat is particularly concerned that Egypt not become the handmaiden of other Arabs, a development that would deny him a free hand in his relations with Israel and the US. He also does not want to increase his reliance on the Soviet Union. Accordingly, he will look to the US and to other friendly Western governments for necessary assistance.

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JORDAN: GOOD ECONOMIC PROSPECTS

The outlook for Jordan's economy is favorable, barring a renewal of major fighting. The balance of payments was \$20 million in the black last year and will probably show a surplus of at least \$70 million in 1974. Export earnings, foreign aid payments, and the inflow of capital for development are all expected to increase. Growth in the cost of imports will probably be held to about 25 percent because of the reduced need to import grain and the continued availability of low-priced petroleum.

Export earnings will probably reach \$120 million this year, more than double those of last year. Phosphates, cement, and agricultural products, constituting 90 percent of total exports, will account for most of the increase. Because of world fertilizer shortages, phosphate prices have soared from \$14 a ton to as high as \$50 a ton in the last six months. As a result, phosphate exports alone, now projected at 1.9 million tons, may bring in as much as \$60 million, quadruple the amount they brought in last year.

Food imports made up 30 percent of Jordan's 1973 import bill, but they should be down substantially this year. Production of wheat, the major crop and dietary staple, should amount to 250,000 tons, compared with only 45,000 tons last year. The lower food bill will, in large part, offset higher import outlays for manufactured goods and machinery for development projects. The cost of petroleum imports—a major inflationary item in the import accounts of most countries—will not affect Jordan's very much, because Saudi Arabia is continuing to supply Jordan with crude oil at a long-standing price of around \$2 per barrel.

Foreign aid payments, largely from the US, Saudi Arabia, and Kuwait, are slated to reach \$190 million this year, a 15-percent increase over 1973. In past years, Jordan has diverted budget support funds to the purchase of defense equipment abroad, which has restrained economic development. Substantial new funds from the US, Abu Dhabi, and the United Arab Emirates to cover expanded military requirements should ease

further pressure on the foreign payments account and leave more funds for Jordan's economic development program. Jordan will probably also receive at least \$100 million in new foreign loans for its development program.

Prospects for economic development over the longer term are also good. Projects already under way will eventually increase the output of phosphates and farm products, add to earnings from tourism, and allow exploitation of Jordan's considerable copper reserves. Changed political conditions could alter the long-term prospects, however. Creation of an autonomous Palestinian state on the West Bank hostile to King Husayn, for example, could adversely affect the investment climate and require additional expenditures for internal security.

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INDIA: RAIL STRIKE

Prime Minister Gandhi this week has been faced with India's gravest labor dispute since she took office eight years ago. A nationwide rail strike, which began on May 8, disrupted the flow of critical food and fuel shipments, intensifying India's economic woes. A reduced rail schedule was maintained with assistance from the army; priority went to badly needed fuel for industrial use and power plants. Food shortages are expected in urban centers.

At least half the 1.7 million employees of the nationalized rail system have rebelled because of an inflationary squeeze that has boosted prices 25 percent in the last year. The unions have demanded a steep wage increase that would place rail workers on a par with other government employees. Weeks of negotiations between the government and rail unions came to a halt on May 2 following the arrest of several hundred union leaders, including Socialist leader George Fernandes, the primary organizer of the strike.

Mrs. Gandhi has maintained a tough stance and is willing to risk the economic consequences in order to discourage other sectors of the

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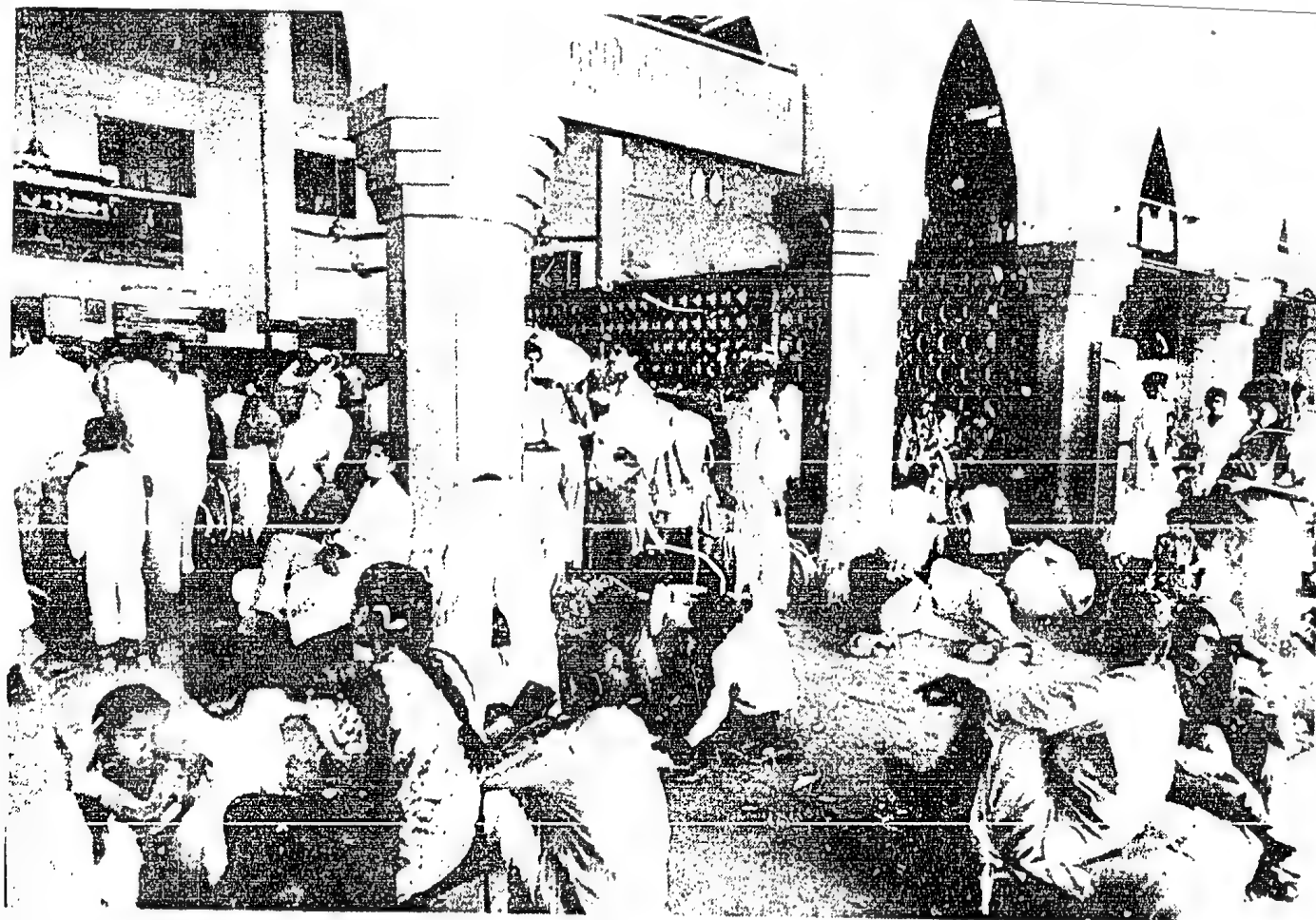
population from striking for wage hikes. Although the strike could continue for weeks, she apparently is counting on it fizzling after a few days as a result of divisions among the highly politicized rail unions; previous rail walkouts have been short-lived. The government has threatened to fire strikers and arrest those who interfere with train operations or damage rail property.

The strike presents a particular dilemma for the pro-Moscow Communist Party of India (CPI), which in recent years has openly supported Mrs. Gandhi and her populist policies. Its leaders have become critical of her trend toward more conservative economic policies over the past few months. Continued wholehearted CPI support for the rail strike may herald the end of cooperation between the CPI and Mrs. Gandhi's Congress

Party. Mrs. Gandhi can also expect pressure from the left-wing of her own party, which is unhappy with her more pragmatic, less ideological response to the country's economic problems.

While the military is playing a key role in keeping essential rail traffic moving, it resents the frequent calls to assist the government in such non-military matters. So far this year, the army has reluctantly helped quell antigovernment demonstrations in several states.

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IRAN-INDIA: BETTER FRIENDS

The fanfare during Prime Minister Gandhi's state visit to Tehran last week attests to the considerable improvement in relations between Iran and India over the past year. In addition to concluding a number of mutually beneficial economic agreements during the visit, the two countries appear to have overcome suspicions that have inhibited their relations in the past.

Mrs. Gandhi's trip to Tehran was the first by an Indian prime minister in 15 years, and the Iranians went out of their way to make it more than routine. During her four days in Iran, she had two rounds of talks with Prime Minister Hoveyda and was received twice by the Shah, with whom a warm rapport reportedly developed. The ceremonial schedule was unusually full.

Both sides seem particularly pleased with the progress made in economic cooperation. Iran agreed to extend loans to boost production of Indian iron ore and to survey the feasibility of producing alumina. Tehran will also provide funds to help India increase production of cement, steel products, paper, chemicals, and sugar—materials sorely needed by Iran. To transport the increased trade, the two nations agreed to start a joint shipping company that might serve third country ports as well. Mrs. Gandhi welcomed the Shah's proposal to establish a fund for mitigating the impact of rising prices on the LDCs.

The accord also calls for India to provide Iran with technical personnel, engineers, professors, and doctors. Iran lacks the trained people to carry out many of the Shah's development programs.

Beyond these specific benefits, Mrs. Gandhi's visit apparently helped dispel mutual distrust. Tehran is said to be much less concerned about the 1971 Indian-Soviet Friendship Treaty than it once was, and the Indians were also able to persuade the Iranians that their developing relationship with Iraq did not imply blanket endorsement of Iraqi policy, especially with

regard to Iran. New Delhi, in turn, is more confident that Iran would not automatically assist Pakistan in the event of another India-Pakistan confrontation. The Iranians apparently indicated that they have no intention of arming the Pakistanis.

The Shah probably assumes this new detente with New Delhi will help his plans for regional security and his aspirations to a larger world role. India, its internal weaknesses notwithstanding, is predominant in the subcontinent, and its influence among third world countries could broaden support in international councils for Iranian initiatives. If the Shah intends to pursue his recently proposed Middle East, African, South Asian economic union—which he presumably recognizes will not come soon—he will have to have New Delhi's cooperation. A promised return visit by the Shah to India, which may be combined with his planned trip to Australia this fall, will enable the Iranian ruler to continue his personal cultivation of the Indians.

For its part, New Delhi is principally interested in the economic and strategic advantages of closer ties with Iran. India gets most of its imported petroleum from Iran and is pleased with the terms granted by the Shah last March, which allow India to defer payment for part of its oil purchases. New Delhi also sees Tehran as providing the best opportunity for Hindu-dominated India to offset Pakistan's expanding contacts with much of the oil-rich Islamic world, where India has few close friends.

Some differences in outlook remain. Although both countries endorse the principle of an Indian Ocean "peace zone," they differ on their interpretations of the US-Soviet presence in the area. The Indians believe expansion of US facilities at Diego Garcia is provocative and will lead to Soviet countermeasures. The Iranians, on the other hand, view the US activities in the area as a balance to the Soviet presence and therefore stabilizing.

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RECYCLING ARAB OIL DOLLARS

Continuing Arab reliance on the Eurodollar market is impeding the recycling of oil producers' surpluses to consuming countries that most need the money. Financing difficulties are becoming apparent in developing countries and even in a few developed countries—notably Italy.

As oil revenues have flooded in, Arab investments have continued to be concentrated in private Eurodollar assets. Private dollar holdings, primarily bank deposits in London, make up a larger share of investments now than at the end of 1973. Holdings of European public issues and of private assets denominated in European currencies remain small. Oil producers remain unwilling to place their funds directly in non-Islamic developing countries. Discussions with the World Bank Group and the International Monetary Fund are only now beginning to lead to a substantial channeling of funds to these institutions.

The flow of surplus funds into the Eurodollar market is generally adequate to finance the

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oil-induced deficits of consuming nations. Countries that are creditworthy are easily obtaining the necessary financing through direct and indirect government borrowing. France, for example, has already secured sufficient Eurodollar financing to offset much of its oil-payments deficit for 1974. Many developing countries, however, have been unable to borrow in the Eurodollar market because of their bleak economic outlook and poor credit standing; their needs will have to be handled in other ways.

Some developed countries with especially large current account deficits—most prominently, Italy—are also having difficulty obtaining adequate financing in the Eurodollar market. Despite the high interest rate that Rome offered—three quarters of a percent above the London Interbank rate—the placing of its recent \$1.2-billion Eurodollar loan encountered problems. The loan took much longer to arrange than normal because some banks were unwilling to participate.

This experience was a factor in Italy's recent introduction of an import deposit scheme, which should moderate the growth of imports. Even so, Rome will have to seek further loans from private or (more likely) official sources this year to finance continuing payments deficits. In the meantime, it may impose further trade restraints while allowing the lira to depreciate.

Unless new sources of financing outside the market are found, other developed countries with especially large current account deficits—the UK for example—may also be forced to introduce trade restrictions.

GREECE-TURKEY: A RESPITE 25X1

The differences between Athens and Ankara over rival claims to possible oil resources in the Aegean seabed remain unresolved, but tensions have eased. The media in both countries have moderated their sabre-rattling on orders from their governments, thus creating a period of relative quiet that allows both countries greater flexibility in dealing with each other.

Because Athens has not replied to a note sent in late February proposing bilateral negotiations to divide the continental shelf, Ankara is taking steps to establish its claims and to increase pressure on Athens to begin talks. Representatives of the two countries met in New York last month, but Ankara considers the Greek suggestion that they both stop issuing drilling permits in the disputed area simply a stall. Turkish Foreign Ministry officials doubt that any decision on negotiations can be expected soon from the Greeks, because of the Greek Government's domestic problems. Athens claims virtually the entire continental shelf in the Aegean and has been saying that it is willing to "talk," but that no country can negotiate its own sovereignty.

Ankara has been actively seeking a partnership with a foreign firm to conduct oil exploration activities, apparently determined to begin work this summer. It has already received seven or eight bids, some from US firms. Actual drilling is likely to be delayed by a worldwide shortage of offshore oil rigs. The Turks can, however, conduct preliminary studies without a rig, which would again draw public attention to the problem.

There is no unusual military activity on either side of the border in Thrace. The US defense attache in Athens believes, however, that the Greek Army is putting on a small show in the north for the Turks by keeping off-duty soldiers in uniform and moving military traffic about to give the impression that more units than usual are in the area. General Ghizikis, the Greek President, has also just returned from an inspection visit to northern Greece, the latest in an unusual series of high-level military visits to the area.

A dangerous potential exists. Preliminary surveys in the disputed waters might spark incidents.

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LAOS: PULLING AND HAULING

The Lao calendar is well-stocked with holidays, most of them celebrated with enthusiasm. The observance of Constitution Day in Vientiane on May 11, however, may be a rather glum affair. One of the day's traditional highlights is the opening of the National Assembly by the King, but that ceremony has been canceled because Prime Minister Souvanna has bowed to Lao Communist demands that the assembly not be allowed to reconvene.



Phoumi Vongvichit

Souvanna intends to have the King assume the assembly's legislative role. After the cabinet meeting, a government spokesman stated that the budget and other important documents would be sent to the King for review in accordance with the constitution. The King would then issue royal decrees that would be the legal basis for government operations. The King, who reacted calmly to the decision on the assembly, reportedly is willing to go along with this arrangement.

It is unlikely that this formula will go down well with the Communists, however. Their attack on the assembly is based on their determination to shift its functions to the advisory political council, whose leadership is weighted in their favor. In another effort to undercut the Constitution Day ceremonies, Lao Communist leader Souphanouvong—the council's chairman—has called a meeting of the council in Luang Prabang on May 11.

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CHINA: NON-INFORMATIVE MAY DAY

May Day is one of five major holidays celebrated in the People's Republic of China. The turnouts on these occasions generally provide some indication of the political standing of individual leaders. The festivities last week, however, raised as many questions as they answered regarding the course and objective of the anti-Lin/anti-Confucius campaign.

The Peking celebrations were notably low-keyed, as they have been each year since the Lin Piao crisis of 1971. The nation's three major papers did not publish a joint editorial. Celebrations were limited to the performance of revolutionary plays and songs in the public parks and an indoor sports rally for top party leaders that featured tighter-than-normal security precautions. By the end of the day, all active politburo members but Mao, who has not appeared in public since May Day of 1971, had put in an appearance.

The list of participants published in the party journal *People's Daily* the next day contained a few small surprises. Five government ministers—four of them military men—did not appear, suggesting some may no longer hold those posts. Among the five missing ministers was Li Chen, the head of public security; his failure to appear lends credibility to rumors that he was assassinated last year. Li has not appeared in public since January 1973. One of his deputies was also missing. The fact that two other vice ministers of security were listed under party departments rather than the usual State Council focuses further attention on this troubled ministry.

The celebrations in the provinces were highlighted by the reappearance in Liaoning of Li Te-sheng, a vice-chairman of the party and military commander of the northeast region. In several provinces Li has been attacked in wall posters as a secret follower of the disgraced Lin Piao and, according to one report, he was under arrest. *People's Daily* published Li's picture on May Day,

indicating he still has powerful supporters in Peking.

Elsewhere, the event was more notable for what did not happen. Two thirds of China's provinces failed to broadcast detailed lists of those attending local functions—in some instances, perhaps, an indication of the serious factionalism that exists in those provinces. No new first secretaries were listed for the eight vacancies, and the first secretary of Honan was conspicuously absent from a large celebration there. While there is no good evidence that he is in trouble, the provincial media have made it clear that some Honanese leader will likely be branded Lin Piao's "sworn follower."

The surface tranquility of May Day stands in contrast to recent developments in the provinces. Although critical posters have been removed in one province, attacks on several provincial leaders are continuing elsewhere. They now include civilian as well as military targets and, in the case of Kiangsu, virtually the entire provincial leadership.

The attacks do not present a clear picture or any consistent theme. They are not officially sanctioned and have in fact been prohibited in central party documents. As a result, both the national and provincial media have re-emphasized party unity, and have called for the overwhelming majority of the cadres and masses to unite in order to expose the "small handful of class enemies." Some of the attacks seem to be part of a nationally coordinated campaign, while others are clearly locally inspired. From province to province, they vary in intensity and the dates of their inception. Moreover, both "radicals" and "moderates" are being criticized.

The difference between what the party says and what is being done reflects the divisions that exist in the national leadership. Some of the poster attacks in the provinces are the work of

rival local factions, but in many instances they undoubtedly are inspired and abetted by competing groups in Peking. These groups are attempting to exploit the campaign for their own ends.

The way in which the May Day celebrations were handled almost certainly indicates that there will be high-level victims, perhaps including some Politburo members, as a result of the anti-Lin/anti-Confucius campaign. Military men may be in for a particularly rough time; the holiday turn-outs provided further indications that the eight military region commanders who were rotated last December are likely to be excluded from top party posts in their new provinces. In addition, many of the former army officers who now head ministries may be removed or demoted before it is over. On the whole, more factional strife in the provinces seems likely, and the nation's top leaders apparently remain deadlocked over a number of key personnel and domestic policy issues.

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USSR-China THE BEAR GROWLS CAREFULLY

Eight weeks have passed since a Soviet helicopter and its three-man crew crossed the Chinese border on March 14 and were seized by Chinese authorities. Both the Soviets and the Chinese initially played the incident in low key, but signs that Peking might be considering a show trial evidently caused Moscow to take steps last week to forestall such a development or at least take the initiative from the Chinese.

25X1 On May 2, Moscow issued its third and toughest protest to the Chinese about the incident.

[redacted] the Soviet press began to devote more attention to the helicopter story. *Pravda* ran an account of the ill-starred "mercy mission," and the weekly *Literaturnaya Gazeta* featured a mawkish story on the family of the helicopter's commander. Some of this was clearly for home consumption, but some was also designed to convince the West and Communist parties throughout the world that the Soviets' hands are clean and that any flare-up of the helicopter incident will be evidence of Chinese unreasonableness. Finally, Moscow's words were also meant to signal Peking that the Soviets are prepared to act tougher if the Chinese fail to maintain restraint.

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With another Soviet-US summit looming, Moscow probably hopes to avoid a clear-cut public polemic with Peking that would almost certainly result from a show trial. The situation is not without some irony, given the fact that the Chinese, apart from the March 23 charge of Soviet espionage, have not done or said anything publicly that is a clear-cut provocation. So far, the Chinese have not responded strongly to the new Soviet campaign.

[redacted] Given the current political tensions in China, it may well be that the Chinese are still undecided about how to play the incident.

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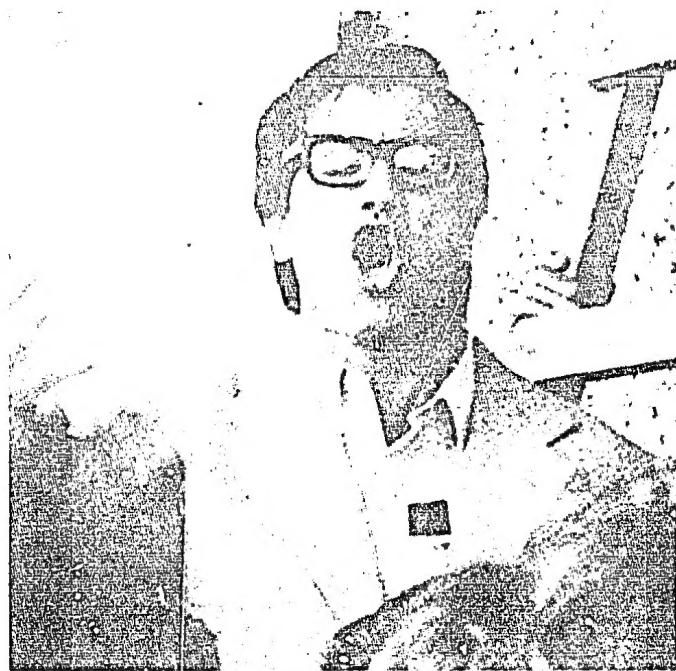
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GUATEMALA: OUTLOOK UNEASY

The inauguration of President-elect Kjell Laugerud on July 1 does not promise to be a peaceful one. Disturbances erupted during a labor rally on May 1 and, although calm has since returned to the capital, political tensions remain high and the security situation is fragile. If violence breaks out again, the government may resort to stronger, possibly extra-legal, measures to keep the lid on.

The government and the Christian Democrats, the major leftist opposition party, are accusing each other of inciting the May Day melee in which at least two people were killed. A week earlier, the Christian Democrats called for continued resistance to the government for rigging the presidential election on March 3; the government responded by branding the party as an "international organization in league with Communists." The press is reporting rumors that some government officials are thinking about declaring the party illegal.

The tension has been building for more than a month. During March and April there were bombings, arson, the killing of a former police official, and kidnappings of two prominent Guatemalans aligned with the government. The Revolutionary Armed Forces, the action arm of the Communist Party, was responsible for some of these incidents. Government goon squads added to the violence by killing two leftists.



Manuel Colom
A marked man

considerable political following and has aspirations for higher political office. Clearly, the government intends to disabuse him of this ambition or, failing that, possibly mark him for elimination by assassination.

The government was particularly incensed at the Christian Democratic Party for calling for the "people" to gain power this year and for the army to help in the act. The Christian Democrats and Mayor Colom appear intent on stirring up unrest and trouble for the government. They may be trying, as the government believes, to create enough of a public upheaval before the inauguration to force the army to take over.

The government is inclined to deal with further provocations from the opposition with a heavy hand. The danger is that in doing so it might cause even more trouble for itself. For example, if the Christian Democratic Party is outlawed, a significant part of the political opposition would be further alienated. This almost certainly would lead to more of the very violence the government is trying to avoid.

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The May Day disturbances prompted the government to issue ominous warnings: "unscrupulous political groups" will not be allowed to interrupt the normal transfer of power; the full force of the law will fall on "intellectual" and "material" authors of violence; and "defeated leaders" of the opposition will remain within the law or be dealt with "drastically." The government brought legal charges against the leftist mayor of Guatemala City, Manuel Colom, for allegedly inciting the violence. Colom, who leaves office on July 1, has been a major headache for the government for some time. He commands a

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